

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date OCTOBER 5, 2000 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
Dennis Smith	Amerada Hess Corp	Houston
DON ADAMS	AMERADA HESS Corp	HOUSTON
Bob Williams	Amerada Hess Corp	Monument, MO
Charles McGeehan	Amerada Hess Corp	Seminole, TX.
William L. Day	Campbell, Law Firm, Houston	Houston, TX
Jerry Burt	EOG Resources	Midland, TX
Mark Binion	McGuffin Corp	Denver
John Steuble	-	-
Michael Felder	Campbell Law Firm, Houston	-

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: ) CASE NO. 12,488  
)  
APPLICATION OF EOG RESOURCES, INC., FOR )  
SURFACE COMMINGLING AND OFFLEASE STORAGE )  
AND MEASUREMENT, LEA COUNTY, NEW MEXICO ) ORIGINAL  
)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

October 5th, 2000

Santa Fe, New Mexico

October 13 AM 9:28

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner on Thursday, October 5th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

October 5th, 2000  
Examiner Hearing  
CASE NO. 12,488

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<u>JERRY BALL</u> (Engineer)	
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\* \* \*

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\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

LYN S. HEBERT  
 Attorney at Law  
 Legal Counsel to the Division  
 2040 South Pacheco  
 Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.  
 Suite 1 - 110 N. Guadalupe  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:20 a.m.:

3  
4  
5           EXAMINER ASHLEY: This hearing will come to order  
6 for Docket Number 28-00. Please note today's date, October  
7 5th, 2000. I'm Mark Ashley, appointed Hearing Examiner for  
8 today's cases.

9           Before we call the first case, I'd like to review  
10 the docket for continuances and dismissals.

11           (Off the record)

12           EXAMINER ASHLEY: At this time the Division calls  
13 Case 12,488, Application of EOG Resources, Inc., for  
14 surface commingling and offlease storage and measurement,  
15 Lea County, New Mexico.

16           Call for appearances.

17           MR. CARR: May it please the Examiner, my name is  
18 William F. Carr with the Santa Fe law firm Campbell, Carr,  
19 Berge and Sheridan.

20           We represent EOG Resources in this matter, and I  
21 have one witness.

22           EXAMINER ASHLEY: Any additional appearances?  
23 Will the witness please rise to be sworn in?

24           (Thereupon, the witness was sworn.)

25           EXAMINER ASHLEY: Mr. Carr?



1 in 1992.

2 Q. Could you review for Mr. Ashley your work history  
3 following graduation from Texas Tech?

4 A. Yes, sir, I was employed by Phillips Petroleum  
5 for 17 years, and there I served as a production engineer  
6 and drilling engineer. Subsequently I've been employed by  
7 EOG Resources or their predecessors for 23 years, and I  
8 served in that same thing as production and drilling  
9 engineer.

10 Q. Are you familiar with the Application filed in  
11 this case on behalf of EOG Resources?

12 A. Yes, I am.

13 Q. Are you familiar with the status of the lands in  
14 the area which is the subject of this Application?

15 A. Yes, I am.

16 Q. And are you familiar with the engineering and  
17 operational reasons for EOG's Application in this case?

18 A. Yes.

19 MR. CARR: Mr. Ashley, we tender Mr. Ball as an  
20 expert witness in petroleum engineering.

21 EXAMINER ASHLEY: Mr. Ball is so qualified.

22 Q. (By Mr. Carr) Could you briefly summarize for  
23 the Examiner what it is that EOG seeks with this  
24 Application?

25 A. With this Application we seek an exception to

1 Rule 303.A to surface commingle production from three  
2 leases in Lea County, where the ownership is diverse, and  
3 we seek exception for separate on-lease metering of oil  
4 production and also an exception to Division Rule 309.A to  
5 permit offlease storage and measurement of production from  
6 the Triste Draw-Delaware and the Triste Draw-Bone Spring  
7 Pool.

8 Q. Could you review the history of commingling of  
9 production from this acreage?

10 A. This acreage was acquired from Burlington  
11 Resources by EOG around March of 2000. Burlington, or  
12 previously Meridian, had previously obtained approval for  
13 surface commingling of two of these leases by this  
14 application, and the OCD ordered that production shall be  
15 allocated to each lease by separately metering the  
16 production from the Diamond "34" Federal Lease and  
17 determining the Diamondtail "34" Federal Lease by the  
18 subtraction method.

19 Q. Let's go to what has been marked for  
20 identification as EOG Exhibit Number 1. Could you identify  
21 that for Mr. Ashley?

22 A. Exhibit Number 1 is a copy of the original  
23 Meridian application and also the Division order that  
24 approved this application. The last page is a copy of the  
25 Division's order approving the Meridian application.

1 Q. And that's the document that required metering of  
2 production from the Diamond lease and then the use of the  
3 subtraction method to allocate to the Diamondtail lease; is  
4 that right?

5 A. Yes, the production was not metered, and it was  
6 allocated by well test.

7 Q. And so we're here today basically seeking  
8 authorization for what has been done historically by  
9 Burlington or Meridian on this property, that is,  
10 allocating production by well test?

11 A. That is correct.

12 Q. Let's go to what has been marked EOG Exhibit  
13 Number 2. Will you identify that?

14 A. Exhibit 2 is a Division Form C-106, Notice of  
15 Intention to Utilize Automatic Custody Transfer Equipment.  
16 It identifies the leases and pools to be commingled. It  
17 does not indicate how production is to be measured. The  
18 intended purpose is to continue the practice of Burlington  
19 to base the allocation of production on well tests. It  
20 also references prior Division orders.

21 Q. And what is EOG Exhibit Number 3?

22 A. EOG Exhibit Number 3 is copies of Administrative  
23 Orders Number DHC-1330 and -1358.

24 Q. These are the prior orders authorizing  
25 commingling on two of the leases?

1 A. Yes, that's correct.

2 Q. Let's go to Exhibit Number 4, the orientation  
3 plat. Would you review the information on this exhibit?

4 A. Exhibit Number 4 shows the boundaries and the  
5 lease numbers of the Diamond "34" Federal Oil and Gas Lease  
6 62225, the Diamondtail "34" Federal Oil and Gas Lease  
7 94616, and the Diamondtail Federal Oil and Gas Lease 94850.  
8 It shows the location of the Diamondtail "34" battery and  
9 shows the wells located on the subject leases.

10 Q. And production from what formations is actually  
11 being commingled on these leases?

12 A. These leases all produce from the Triste Draw-  
13 Delaware Pool and/or the Triste Draw-Bone Springs Pool.  
14 Production from the Triste Draw-Bone Springs is downhole  
15 commingled with the Delaware in the Diamond "34" Well  
16 Number 2 and in the Diamondtail "34" Well Number 1.

17 Q. Could you explain how the ownership differs  
18 between the leases which are the subject of this  
19 Application?

20 A. The ownership is not common. EOG owns 100  
21 percent of the working interest in the Diamondtail "34"  
22 lease and also in the Diamondtail "3" lease. EOG owns 75  
23 percent of the working interest in the Diamond "34" lease.

24 The royalty interest owners also differ on these  
25 leases, and this working interest and ownership is shown in

1 EOG Exhibit Number 5.

2 Q. That also sets out the various royalty owners,  
3 does it not?

4 A. Yes.

5 Q. What is Exhibit Number 6?

6 A. Exhibit Number 6 is a sundry notice concerning  
7 this same proposed commingling and offlease storage and  
8 measurement, and it is approved by the BLM on their form.

9 Q. Mr. Ball, would you now summarize for the  
10 Examiner how it is that EOG proposes to allocate the  
11 commingled production between the subject leases?

12 A. All of these wells will be produced through a  
13 common tank battery and so be a LACT unit. Once each  
14 month, each well will be tested for production for a 24-  
15 hour test. Oil will be sent to a test tank and gauge. The  
16 gas will be metered and recorded. Production to each well  
17 will be allocated back to the well, based on a monthly well  
18 test.

19 The total production will be allocated to  
20 individual wells by, one, taking the amount of test oil  
21 from each well, divided by the sum of the total test oil  
22 from all of the wells, and that multiplied times the total  
23 oil production. The gas production will be allocated in a  
24 similar manner.

25 Q. And why is EOG seeking authorization to surface

1 commingle this production?

2 A. The production from these wells is marginal.  
3 Equipment used to individually meter each of these wells  
4 increases the cost of the development, and this is the main  
5 reason behind the Application, to allow economic  
6 development for those leases.

7 Q. Let's go to Exhibit 7, and if you could sort of  
8 walk us through this exhibit and explain exactly how this  
9 production will be handled.

10 A. Exhibit 7 is a schematic diagram of the battery  
11 of the Diamond "34". Up in the upper right-hand corner it  
12 shows all the wells' production coming into a production  
13 header.

14 The wells produce through a common line to the  
15 6-by-20 common separator. The oil goes from that separator  
16 to the 500-barrel stock tanks and is sold via LACT unit.  
17 The gas goes to the gas line and is sold to Duke Field  
18 Services through a gas meter.

19 Each one of these wells, then, is cabled by the  
20 -- to be separately tested. There's a manifold where each  
21 well can be sent to one of the 4-by-20 test treaters. The  
22 oil then will go to a 500-barrel test tank, be gauged, then  
23 delivered to the LACT unit, and the gas will be measured  
24 individually and sent to, then, the sales meter, to Duke  
25 Field Services.

1 Q. Could you identify and review Exhibit Number 8?

2 A. Exhibit Number 8 is a tabulation showing the  
3 wells, the test production of each well, the pool the wells  
4 are producing from, the gravity of the oil, the value of  
5 the oil before commingling and the value after commingling.

6 Q. Mr. Ball, are EOG's commingling facilities of a  
7 design which is in accordance with the Division's manual  
8 for installation and operation of commingling facilities?

9 A. Yes, they are.

10 Q. Will the royalties be reduced by the proposed  
11 commingling?

12 A. No, in Exhibit 8 it shows there's no change in  
13 value.

14 Q. Will the actual commercial value of the  
15 commingled production be less than the sum of the values of  
16 production from each of the common sources of supply?

17 A. No, it will not.

18 Q. Could you briefly summarize for the Examiner the  
19 benefits which EOG hopes to obtain from approval of this  
20 Application?

21 A. EOG hopes to operate the leases with less  
22 equipment, we hope to reduce operating costs and thus the  
23 economic lives of the well, with the increased life we  
24 expect increased recovery, which will result in increased  
25 revenue for all interested parties, the working interest

1 owners, royalty interest owners and overriding royalty  
2 interest owners.

3 Also with less equipment, there's likelihood that  
4 we might have an environmental event or impact.

5 Q. Is EOG Exhibit Number 9 an affidavit confirming  
6 that notice of this Application has been provided to all  
7 affected interest owners in accordance with Oil  
8 Conservation Division Rules and Regulations?

9 A. Yes, that is correct.

10 Q. And to whom was notice provided?

11 A. Notice was provided to all parties owning an  
12 interest in the subject leases, either a working interest  
13 or royalty interest, and also the BLM is a royalty.

14 Q. In your opinion, will approval of this  
15 Application be in the best interest of conservation, the  
16 prevention of waste and the protection of correlative  
17 rights?

18 A. Yes, it will.

19 Q. Were EOG Exhibits 1 through 9 either prepared by  
20 you or compiled under your direction and supervision?

21 A. Yes, they were.

22 MR. CARR: At this time, Mr. Ashley, we move the  
23 admission into evidence of EOG Exhibits 1 through 9.

24 EXAMINER ASHLEY: Exhibits 1 through 9 will be  
25 admitted as evidence.

1 MR. CARR: That concludes my direct examination  
2 of Mr. Ball.

3 EXAMINATION

4 BY EXAMINER ASHLEY:

5 Q. Mr. Ball, with the original approval that you  
6 acquired about four years ago, you were commingling the  
7 Diamond "34" Federal wells 2 and 3, and then the  
8 Diamondtail "34" Federal?

9 A. That's correct.

10 Q. And those two leases were -- okay, you determined  
11 the -- You metered the "34", the Diamond "34" and then used  
12 the subtraction method for the Diamondtail "34"?

13 A. That was what Burlington's application said.

14 Q. Okay. And then now you want to add the  
15 Diamondtail "3" Federal Lease?

16 A. That is correct.

17 Q. Will the allocation method that you're using with  
18 the prior approval change any? For those two leases,  
19 that's going to remain the same?

20 A. That will stay the same.

21 Q. And then how are you going to allocate for this  
22 new lease?

23 A. Let me say one thing. The metering by  
24 subtraction method, this was obtained by Burlington, who  
25 was a prior owner from us, and the records indicated that

1 they actually allocated this by a well test, rather than  
2 metering each lease.

3 Q. Okay.

4 A. So the facilities were not there to meter each  
5 lease, each well separately. So we plan to continue using  
6 that well-test method that they were currently doing, even  
7 though it wasn't exactly what the order said they --

8 Q. Okay. Have you received approval from the BLM?

9 A. Yes, we have.

10 MR. CARR: Mr. Examiner, we have an approved  
11 sundry notice from the BLM, which is marked Exhibit Number  
12 6, and that is the form that was filed with the BLM seeking  
13 approval to surface commingle each of these leases.

14 EXAMINER ASHLEY: Okay, thanks.

15 Okay, I have nothing further, thank you.

16 MR. CARR: That concludes our presentation in  
17 this matter.

18 EXAMINER ASHLEY: There being nothing further in  
19 this case, Case 12,488 will be taken under advisement.

20 (Thereupon, these proceedings were concluded at  
21 8:45 a.m.)

22 \* \* \*

23 I hereby certify that the foregoing is  
24 a complete record of the proceedings in  
25 the Examiner hearing of Case No. 12488,  
heard by me on 10-5-00 at +

*Mark K. Kelly*, Examiner

Of Conservation Division

STEVEN T. BRENNER, CCR  
(505) 989-9317

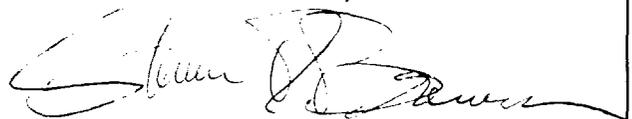
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) SS.  
COUNTY OF SANTA FE )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL October 5th, 2000.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002